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Author(s): Douglas West

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Multinational Competition in the British Advertising Agency Business, 1936–1987

DOUGLAS WEST

American multinational advertising agencies first made inroads into the British advertising industry in the early twentieth century. Some were pioneers, but most came to Britain to service the advertising of American-based multinational companies. Their impact on British advertising was significant, particularly from 1945 until the late 1970s, years when American multinational agencies dominated the top end of the business. The British staged a major counter-challenge in both the British and American markets in the early 1980s, however, with considerable success. The basis of the British challenge was improved access to capital, which permitted expansion through acquisition, rather than the servicing of British-based multinational companies. Professor West places these developments in the context of multinational enterprise theory, using new data and evidence drawn largely from trade sources.

American multinational advertising agencies based in New York dominated the top end of the British agency business by the 1960s. Madison Avenue became synonymous with advertising in Britain, as it was in the United States. By the mid-1980s, however, the supremacy of the United States had been checked and eroded by a small group of highly creative and financially adept British agencies. In addition, several London-based agencies had entered the U.S. market in pursuit of their own multinational ambitions.

Little attention has been directed toward the overall chronology of this process or to an explanation of events in Britain.¹ This article provides an account of the Americanization of the British advertising agency business and of the recent counter-struggle by British firms in the context of multinational enterprise (MNE) theory. Modifying Richard Caves's

DOUGLAS WEST is assistant professor of marketing at the University of Calgary.

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¹ For an assessment of U.S. multinational advertising agencies' activities and motivations globally, see Arnold K. Weinstein, "The International Expansion of U.S. Multinational Advertising Agencies," *MSU Business Topics* (Summer 1974), 29–35; Weinstein, "Foreign Investment by Service Firms: The Case of the Multinational Advertising Agency," *Journal of International Business Studies* (1977): 83–91; Michael H. Anderson, *Madison Avenue in Asia: Politics and Transnational Advertising* (N.J., 1984); and Vern Terpstra and Chow-Ming Yu, "Determinants of Foreign Investment of U.S. Advertising Agencies," *Journal of International Business Studies* 19 (1988): 33–46.

definition of a multinational enterprise, I define a multinational advertising agency as an agency that controls and manages offices located in at least two countries.²

The article begins with a brief review of MNE theory and then assesses the evidence of seller concentration in the British market and the share of advertising expenditures taken by American agencies there. Subsequent sections examine the process of Americanization and the British response. Finally, the article assesses the relevance of MNE theory to competition between British and American multinational advertising agencies.

MNE THEORY

Although no single theory of foreign direct investment has yet been accepted, the foundations of the MNE theoretical framework are generally attributed to Charles Kindleberger, Stephen Hymer, and Richard Caves.³ The core of their argument is that in deciding whether or not to undertake foreign direct investment a potential MNE must have a firm-specific advantage, which they term a "monopoly advantage," to counteract the cost disadvantage of operating at a distance. The advantage must also be transferable abroad, but not available to indigenous firms.

Refinements of the monopoly advantage theory have focused on the early work of R. H. Coase on internalization.⁴ He argued that firms are called into existence to minimize transaction costs and that they will "tend to expand until the cost of organizing an extra transaction within the firm becomes equal to the cost of carrying out the same transaction by means of an exchange in the open market."⁵ Internalization theory thus centers on transaction costs.

Transaction costs are an important element in a firm's decision to become a multinational. Kenneth Arrow argued that internalization of production often leads to higher profits and maximizes efficiency because it gives sellers full information about the buyers' demand and minimizes resale. Harry G. Johnson asserted that knowledge was central to internalization, because knowledge has high coordination costs and is imperfect. Peter Buckley and Mark Casson added the idea that foreign direct investment arose when firms internalized market imperfections in intermediate products, such as entrepreneurship and technical skills. Oliver

² Richard E. Caves, *Multinational Enterprise and Economic Analysis* (Cambridge, Mass., 1982), 1.

³ Charles P. Kindleberger, *American Business Abroad: Six Essays on Direct Investment* (New Haven, Conn., 1969); Stephen Hymer, *The International Operations of National Firms* (Cambridge, Mass., 1975); Richard E. Caves, "International Corporations: The Industrial Economics of Foreign Investment," *Economica* 38 (1971): 1-27.

⁴ R. H. Coase, "The Nature of the Firm," *Economica* 4 (1937): 386-405.

⁵ Ibid., 395.

Williamson emphasized a market hierarchy approach, arguing that MNEs can reduce their risks in world trade because it is easier for them to police contractual agreements.⁶

John Dunning has stressed the integrative roles of "ownership advantages" in combining assets with factor endowments located in foreign countries.⁷ The argument is "eclectic," in that firms possessing ownership advantages then decide where to employ these advantages in the light of demand and costs in trade and location theory. There must be an incentive to transfer ownership advantages within their own organizations rather than to sell or license them. Firms decide to become MNEs when ownership advantages favor the home firm but location endowments favor foreign production, and when it is in the best interest of the firm to internalize operations.

The locational advantage of MNE theory is drawn from standard economic theory. In sourcing foreign markets, firms may benefit from such aspects as cheaper factor endowments, the avoidance of transport costs and trade barriers, benefits from the foreign investment policies of local governments, and the ability to exploit currency markets.

Overall, MNE theory has been largely preoccupied with goods rather than services. Research on the internationalization of service industries has received increasing attention over the past ten years, but it is still in its early phase of development.⁸

THE AMERICANIZATION OF BRITISH ADVERTISING

Available data indicate a relatively high level of seller concentration in the British advertising industry between 1936 and 1987, as shown in Table 1. The overwhelming bulk of advertising expenditure recorded in the press and on commercial television was controlled by the top 10 percent of agencies. The degree of concentration increased from about 70 percent in the mid-1930s and immediate post-Second World War

⁶ Kenneth J. Arrow, "Vertical Integration and Communication," *Bell Journal of Economics* 5 (1975): 173-83; Harry G. Johnson, "The Efficiency and Welfare Implications of the International Corporation," in *The International Corporation*, ed. Charles P. Kindleberger (Cambridge, Mass., 1970), chap. 2; Peter J. Buckley and Mark C. Casson, *The Future of the Multinational Enterprise* (London, 1976); Mark C. Casson, "Transaction Costs and the Theory of the Multinational Enterprise," in *New Theories of the Multinational Enterprise*, ed. Alan M. Rugman (London, 1982); Oliver E. Williamson, "Transaction Cost Economics, the Governance of Contractual Relations," *Journal of Law and Economics* 22 (1979): 233-61.

⁷ John H. Dunning, "The Determinants of International Production," *Oxford Economic Papers* 25 (1973): 289-336; Dunning, "The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions," *Journal of International Business* 19 (1988): 1-31.

⁸ See, for example, Sarkis J. Khourey, "International Banking: A Special Look at Foreign Banks in the U.S.," *Journal of International Business Studies* (1979): 36-52; Jean M. Gray and H. Peter Gray, "The Multinational Bank: A Financial MNC?" *Journal of Banking and Finance* (March 1981): 33-63; John H. Dunning and Matthew McQueen, "The Eclectic Theory of International Production: A Case Study of the International Hotel Industry," *Managerial and Decision Economics* 2 (1981): 197-210; George N. Yannopoulos, "The Growth of Transnational Banking," in *The Growth of International Business*, ed. Mark Casson (London, 1983), 236-57; and H. Seymour, R. Flanagan, and G. Norman, "International Investment in the Construction Industry: An Application of the Eclectic Approach," *University of Reading Discussion Papers in International Investment and Business Studies* 87 (1985).

TABLE 1
**Distribution of Billings among Agencies in Britain,
 1936-1987**

% NO. OF AGENCIES	% OF BILLINGS					
	1936	1950	1960	1970	1980	1987
1-10	70	72	79	82	46	53
11-20	16	14	13	10	17	17
21-30	7	5	4	4	11	9
31-40	3	3	2	2	8	6
41-50	2	2	1	1	5	4
51-100	2	4	1	1	10	11
Total	100	100	100	100	100	100
[No. of agencies:	270	330	443	401	250	300]

Sources: Collated from the *Statistical Review (The Statistical Review of Press Advertising)*, Jan.-Dec. 1936 and 1950; *Statistical Review of Press and TV Advertising*, Jan.-Dec. 1960; *Media Expenditure Analysis, Ltd.* (MEAL), Jan.-Dec. 1970; *Campaign*, 2 Jan. 1981, 26 Feb. 1988.

The *Statistical Review* and MEAL data are derived from monitoring media expenditures, which are then attributed to the billings of the agencies (and the expenditures of advertisers) concerned. The results are commonly purchased by agencies and advertisers in Britain.

The data for 1980 and 1987 represent the agencies' own figures for billings covering all media expenditures and not just press and television. Top agencies were more likely to use national press and major magazines and commercial television than smaller ones, so the 1936-70 data overstate their importance.

years to nearly 85 percent during the 1960s. The U.S. based advertising agencies gained entrance to an industry already dominated by large-scale British producers, a common occurrence in MNE development.

One can also analyze the agency billing data in terms of the proportion attributed to American advertising agencies as a group. Table 2 shows the growth in importance of U.S. advertising agencies in Britain between 1936 and 1970. The figures indicate a rise in share of billings from 13 to 42 percent, with a slight decline in the years immediately following the Second World War. It appears that the U.S. position had stabilized at this time with a share of British billings at 34 percent. Just six years later there had been a dramatic change, with the American share falling to 22 percent. The dominance and consolidation of American advertising agencies occurring from the 1960s onward had been significantly eroded by the mid-1980s.

The predominant form of contractual relationship between American and British agencies in the interwar period (judged by reports in the trade press) was the "association," a form of agreement in which the foreign agency is "loosely or tightly connected to a local advertis-

TABLE 2
U.S. Agencies' Share of Billing, 1936-1987

	1936	1950	1960	1970	1980	1987
Share of Total	13%	11%	30%	42%	34%	22%
No. U.S. Multinational Agencies in UK	5	4	12	24	24	11
No. U.S. Multinational Agencies in Top Ten ^a	1	2	5	6	7	5

^aSee Appendix 1.

Sources: See Table 1.

ing agency, but has no official equity."⁹ For example, one of the leading agents of the 1920s and 1930s, Sir Charles Higham, formed an association in 1920 between his firm and William H. Rankin of Chicago.¹⁰ Under the agreement Higham handled the advertising of Rankin's clients in Britain, and the American agency reciprocated for Higham's clients in the United States.

After the previously U.S.-dominated World Advertising Association Convention was held for the first time in London, such associations were more frequently reported, suggesting that the practice was commonplace by the second half of the 1920s and during the 1930s. Associations were mutually beneficial to agencies on either side of the Atlantic by increasing the stability of their businesses. Advertisers were offered a significant degree of coordination in both domestic and international markets without the agencys' having to take the risk of establishing offices overseas.

Anglo-American associations continued (and continue) to be negotiated after the Second World War. However, the practice has been considerably less widespread in the postwar period, judging by the number of reports in the trade press, and direct entry into the British market by establishing a branch office or acquisition has become more common. In contrast, Table 3 shows that only five American advertising agencies entered the British market between 1905 and 1922 (four of them between 1919 and 1922). Each was a greenfield entry—that is, a totally new operation with no previous connections in Britain.

⁹ Terry R. Nevett, *Advertising in Britain: A History* (London, 1982), 145-46; *Advertiser's Weekly*, 6 Sept. 1929.

¹⁰ Anderson, *Madison Avenue in Asia*, 91.

TABLE 3
American Agency Entrance into Britain during the Interwar Period

AGENCY ^a	YEAR OF ENTRANCE	MAJOR U.S. CLIENT(S)
Dorland ^b	1905	Various
J. Walter Thompson	1919	Libby's Canned Fruit/ Sun Maid Raisins
Erwin Wasey	1919	Goodyear Tires
Lord & Thomas	1922	Palmolive Soap/ Pepsodent Toothpaste
McCann-Erickson	1922	Esso

^aPaul E. Derrick of the United States established his own agency in London around 1905, but it was not a multinational agency.

^bU.S. offices were sold in 1917.

Sources: *Advertiser's Weekly*, 22 Feb. 1922 and 29 March 1929; *World's Press News and Advertiser's Review*, Feb. 1930; G. Clegg, *JWT London: Dates and Data* (J. Walter Thompson London Office, 1971); Terry Nevett, *Advertising in Britain: A History* (London, 1982); Philip Kleinman, *The Saatchi & Saatchi Story* (London, 1987).

Dorland, run by Walter Edge of Atlantic City, New Jersey, was the pioneering American advertising agency. Edge established a London office in 1905 and others in Paris, Berlin, and Brussels before the First World War to service a variety of American advertisers—though the American part of the business was sold to George Kettle in 1917. In the years immediately following the First World War, J. Walter Thompson, Erwin Wasey, Lord & Thomas, and McCann-Erickson followed Edge's example and established branch offices in London. They all came to service U.S. clients in the overseas market, and it seems likely that more American agencies might have followed if international trade had not declined in the interwar period.¹¹

There was no reciprocation of the American agency entrance into the British market by British agencies expanding to the United States in the interwar period. Only two became multinationals: Dorland and W. S. Crawford (see Table 4). Dorland, under its new British ownership, had a chain of thirty-two branch offices, none of them in the United States. W. S. Crawford established branch offices only in Paris and Berlin—relying for other business on a network of associates around the world.¹²

The Second World War shook the British domestic and multinational markets badly. Both the Dorland and Crawford networks were lost. All

¹¹ For a study of J. Walter Thompson, see Douglas C. West, "From T-Square to T-Plan: The London Office of the J. Walter Thompson Advertising Agency, 1919-70," *Business History* 29 (1987): 199–217.

¹² *Advertiser's Weekly*, 6 Sept. 1929.

TABLE 4
British Agency Branch Networks, 1920-1972

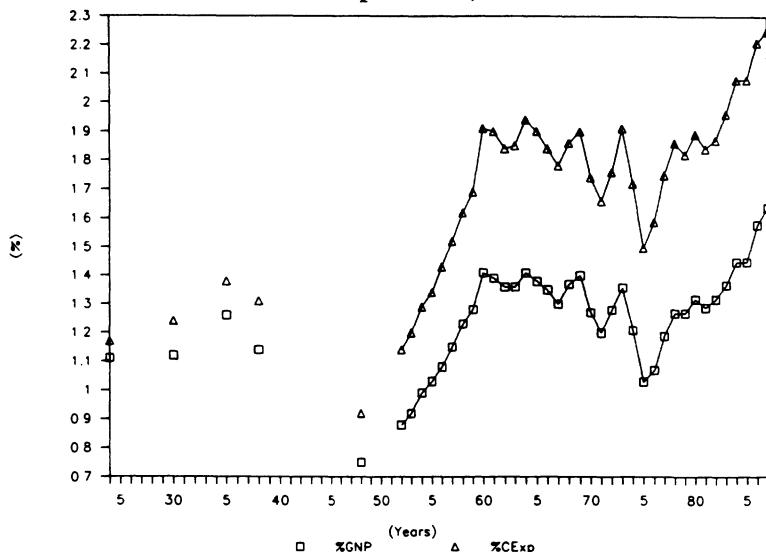
AGENCY	YEARS OF ENTRANCE	LOCATIONS
Interwar		
Dorland	1917-32	Europe, S. America & Commonwealth
Postwar		
W. S. Crawford	1927-32	Germany & France
Colman, Prentis & Varley	1947-60	France, Italy, Germany, Belgium, US, Canada, Chile, Columbia, Venezuela, Trinidad & Bogota
London Press Exchange	1948-66	Europe, S. Africa, Scandinavia, Central South & North America, Far East & Australasia
S. H. Benson	1958-68	Kenya, India, Malaya, Australia, Canada, Spain, France & Germany
Royds	1960-62	Rep. Ireland, Italy, Switzerland, Malaya & Indonesia
Mather & Crowther	1961-63	Austria, Spain, Germany
Masius, Wynne-Williams	1958-67	Germany, France, Spain, Belgium, Denmark, Sweden, Italy, Australia & U.S.

Sources: *Advertiser's Weekly*; *Advertising Review*; *World's Press News* & *Advertiser's Review*.

the American advertising agency branch offices in London were closed except that of J. Walter Thompson (which was able to continue on the strength of its local business). However, the immediate postwar years proved more difficult for the locals than for the Americans. British advertising expenditures were curtailed by consumer rationing, price controls, and shortages of newsprint and paper for posters (see Figure 1). Potential international advertising by exporters was restricted by sterling controls. British agencies thus were suppressed in both the domestic and international markets.

Figure 1

Estimates of UK Advertising Expenditure as a Proportion of GNP and Consumer Expenditure, 1924-1987



Sources: F. W. Taylor, *The Economics of Advertising* (London, 1934); N. Kaldor and R. Silverman, *A Statistical Analysis of Advertising Expenditure and of Revenue of the Press* (Cambridge, England, 1948); R. Silverman, *Advertising Expenditure in 1948* (London, 1951); R. Silverman, *Advertising Expenditure in 1952* (London, 1955); Advertising Association, *Advertising Expenditure in 1956* (London, 1958); Economist Intelligence Unit, *Advertising Expenditure 1960* (London, 1962); Advertising Association, "Advertising Expenditure, 1964-8," *Advertising Quarterly* 20 (1969): 58-64; R. A. Critchley, *UK Advertising Statistics* (London, 1972); M. J. Waterson, "Earthquake in Ulster Gulch," *Admap* (July-Aug. 1986), 43-45; Advertising Association, *Advertising Statistics Yearbook* (London, 1988).

The Americans, in contrast, were free from such constraints. The first American advertising agency to establish a branch office in London during this period, Young & Rubicam, did so in January 1945 before the War had finished.¹³ Young & Rubicam had come to service the advertising of General Motors. Nearly two years later, they were joined by Foote, Cone & Belding (a U.S. management buy-out of Lord & Thomas). Foote, Cone & Belding entered the ranks of Britain's top agencies after only six months, servicing the accounts of Lockheed Aircraft, American Overseas Airlines, Frigidaire, Cellucotton, Bourjois, and General Motors (won from Young & Rubicam).¹⁴ By the time the British domestic market had recovered its momentum in 1960, there were twelve American-based advertising agencies in London, controlling 30 percent of aggregate billings recorded in the press and on commercial television; by 1970, the figures were 24 and 42 percent, respectively.

¹³ Ibid., 12 June 1945.

¹⁴ Ibid., 29 Aug. 1946.

Acquisition was the major method in the process of Americanization in these years. U.S. agencies purchased thirty-two British agencies between 1957 and 1967.¹⁵ Ironically some of the biggest acquisitions were vulnerable partly as a result of their multinational nature.

Royds and Mather & Crowther developed small networks in response to client demands, but only three British advertising agencies effectively competed for international advertising business on a large scale in the 1950s and 1960s: Colman, Prentis & Varley, the London Press Exchange, and Masius. Colman, Prentis & Varley, which opened branch offices around the world between 1947 and 1960, had been founded in 1934 and reached tenth place in the billings league by 1950, slipping to eleventh in 1960 (see Table 4).¹⁶ Its European and South American branch offices had flourished (the latter servicing many leading German exporters and MNEs, including Opel, Maggi, and AEG). However, the New York office floundered, and in 1955 it was merged with Gaynor Advertising of New York in order to benefit from Gaynor's widespread U.S. office network.¹⁷ Even with access to Gaynor's network, Colman, Prentis & Varley's operation in the United States remained unsuccessful. Finding its resources stretched to the margin, the firm's management decided to sell out. A 75 percent share of the entire international and local network was sold to Kenyon & Eckhardt of New York in 1965, which also acquired the remaining shares two years later.¹⁸

The most important British advertising agency acquired by an American firm was the London Press Exchange. The London Press Exchange had been founded in 1895 and by the 1930s was Britain's top agency. It lost its lead to J. Walter Thompson and S. H. Benson in the 1950s and 1960s, but it had developed an impressive multinational network (see Appendix 1). The agency launched its multinational structure in 1948 in the form of a subsidiary company called Intam. During the 1950s it expanded by acquisitions around the world (see Table 4). By 1965 a third of the London Press Exchange's staff of six hundred were employed in Intam, and the company had international billings of £30 million.¹⁹ Total international billings declined to £22 million in 1968, however, in the face of severe competition from American agencies. The London Press Exchange, like Colman, Prentis & Varley, had no significant business in the U.S. domestic market (generating only £0.7 million).²⁰

According to Sir Niall Lynch-Robinson, then one of the London Press Exchange's two deputy vice-chairmen, the company found its lack of

¹⁵ James O'Connor and John Crichton, *Fifty Years of Advertising—What Next?* (London, 1967), 13.

¹⁶ Collated from the *Statistical Review*.

¹⁷ Philip Kleinman, *Advertising Inside Out* (London, 1977), 53; and *Advertiser's Weekly*, 29 April 1960.

¹⁸ Companies Registration Office, Cardiff: Kenyon & Eckhardt, FC 11, 163.

¹⁹ *Advertiser's Weekly*, 15 Oct. 1965.

²⁰ *Campaign*, 16 May 1969.

Aquascutum
OF LONDON

This good-looking coat is showerproof too!

Aquascutum showerproof coats will protect you from changeable Spring weather, and the pure-wool cloths, of which they are made, will keep you warm almost throughout the year. But with warmth goes comfort, so that these coats are comfortable to wear in Spring and Autumn.

The other advantage of these lightweight materials is that they can be cut and hand-finished with the same fine attention to detail that we give to our suits. This makes them extremely good looking—perhaps the best-looking of all our coats.

Illustrated above is Aquascutum's Garrick coat, cut in a very comfortable, single-breasted style, with easy raglan shoulders and slip-sleeve cuffs. The material—showerproofed West-English pure-wool cloth in a very smart black-and-white hound's-tooth pattern. It costs £10 guineas, or £10 10/- Guineas, at J. WALTER THOMPSON'S Aquascutum shop (Dept. 80).

AQUASCUTUM
GARRICK, 100 Regent St.
CLOTHES, 200 Regent St.
Woolens, 200 Regent St.
and at the best shops
throughout the country.

J. WALTER THOMPSON, 1950s

This advertisement for Aquascutum outerwear is a good example both of a straightforward, low-key descriptive style and of an ad geared to a local audience. (Reproduced courtesy of J. Walter Thompson, London.)

strength in the United States a major impediment to growth.²¹ The agency was unable to win the business of major American advertisers, who normally insisted on using the same multinational advertising agency worldwide. In the absence of the resources to purchase a large U.S. agency, the London Press Exchange sold out to Leo Burnett, which became an MNE by purchasing the main London Press Exchange London office and the overseas network.

Masius was established by Max Masius and William Ferguson, both Americans, who purchased the British operation of Albert Lasker's Lord & Thomas in 1947.²² They had both been managing directors of the Lord

²¹ Oral evidence of Sir Niall Lynch-Robinson, 5 July 1984.

²² *Advertiser's Weekly*, 21 Aug. 1947. Foote, Cone and Belding purchased the American network.

& Thomas London office. (Ferguson left the partnership two years later). Max Masius had a reputation for "hard-nosed" and "hard sell" advertising. The agency grew quickly: Masius formed Masius International in 1958 with a staff of 160, with the aim of offering European services to Mars Petfoods, Colgate-Palmolive, Nicholas, and Wilkinson Sword.²³ When Masius died in 1961, the British managing director Wynne-Williams took the major shareholding. The renamed Masius Wynne-Williams later purchased agencies in Belgium, France, Denmark, Spain, Germany, Italy, the Netherlands, and Sweden, adding Australia and the United States in 1968. In that year International Masius's profits reached £33 million, compared to £15.5 million for the London office.²⁴

S. H. Benson, which had a less significant international business, began with an imperial connection. In 1958 Benson set up its first subsidiary in Kenya, "to serve Benson Group clients and others in East Africa." By 1960 it had offices in India, Malaya, Australia, and Canada. Then in a flurry of activity in 1967 Benson's purchased three agencies in Spain, France, and Germany to undertake European advertising previously conducted through associates.²⁵

American multinational advertising agencies continued to squeeze the British domestic advertising market and to limit the scope of British agencies in the 1970s. One of Britain's leading agencies, Lintas, merged with Sullivan, Straaffer, Colwell and Bayles of New York in 1970 to form SSCB-Lintas.²⁶ Unilever (of which Lintas was a subsidiary) decided to divest itself of depending on Lintas' advertising work.²⁷

Between 1972 and 1973 Ogilvy & Mather purchased the British and international offices of the ailing S. H. Benson.²⁸ There was considerable irony in this, because Benson's was involved in the only establishment of a British agency in the United States generally accepted as successful prior to the early 1980s. S. H. Benson and Mather & Crowther joined together to finance Benson & Mather, Inc. of New York in 1948 with the charismatic David Ogilvy as CEO.²⁹ The agency soon established an independent identity, and its British parents withdrew their interest. David Ogilvy acquired Mather & Crowther in 1964 and completed the circle by purchasing S. H. Benson.³⁰

However, the most significant United States takeover in the 1970s was of Masius. In a move that apparently horrified senior Masius directors,

²³ *Advertiser's Weekly*, 22 April 1960.

²⁴ *Ibid.*, 24 May 1968.

²⁵ *Ibid.*, 30 May 1958, 16 June 1959, 19 Oct., 9 June, 29 Sept. 1967.

²⁶ Lintas had a peculiar (to the British advertising business) origin as the subsidiary company of Lever Brothers, having been formed out of their advertising department in 1928. Companies Registration Office, Cardiff. Lintas, 235, 734.

²⁷ *Campaign*, 30 Jan. 1970.

²⁸ Companies Registration Office, Cardiff. S. H. Benson, 662, 150.

²⁹ *Advertiser's Weekly*, 17 June 1948; and see the largely autobiographical, David Ogilvy, *Confessions of an Advertising Man* (London, 1964).

³⁰ *Economist*, 21 Nov. 1964, 907.

Wynne-Williams sold out to the American D'Arcy-MacManus agency shortly before he died in 1974 to form D'Arcy MacManus & Masius.³¹ Masius had undoubtedly been one of Britain's most successful agencies of the 1960s and early 1970s.

Three other smaller British agencies had fallen into American hands by 1980: DWK (formerly David, Williams & Ketchum) and Davidson Pearce, both purchased by Ogilvy & Mather, and Batten Barton Durstine & Osborn, purchased by SJIP.³² Only one major American agency made a greenfield entry into the British market in the 1970s: Doyle, Dane, Bernbach, which placed 18th in the billings table for 1980. (Bill Bernbach was one of the leading American copywriters of the 1960s).³³

Inevitably, the global expansion of U.S. multinational advertising agencies had begun to lose momentum in the 1970s. By 1977, American agencies were operating in every country outside the Communist bloc, except Curacao, Egypt, Malta, Morocco, Paraguay, and Turkey—countries with small markets or high levels of risk.³⁴ Some local agencies in Europe had begun to reassert their position, and in Britain a small group of creative local agencies had begun to challenge the giant agencies. Dubbed the "new wave" by the trade press, agencies such as Saatchi & Saatchi, Boase Massimi Pollitt, and Collett Dickenson Pearce were beginning to make their mark. Barriers to entry were somewhat lower than in the manufacturing sector, since advertising agencies had comparatively low capital requirements, given the service nature of the business. The Japanese company Dentsu had become the biggest single agency in the world by the mid-1970s. However, the British were to mount a challenge within the United States, whereas most Japanese agencies concentrated on their domestic market (except for Dentsu, which formed a joint Pacific network with Young & Rubicam in 1983).³⁵ The British were to make significant inroads into the U.S. advertising market.

THE BRITISH CHALLENGE

By 1987 the share of the British domestic market controlled by American advertising agencies had significantly declined to 22 percent (from 34 percent in 1980), as shown in Table 2. Furthermore, five new British multinational agencies were formed between 1983 and 1987 (see Table 5). Saatchi & Saatchi was second in the U.S. agency billings table, and it dominated the agency groupings with Saatchi & Saatchi Advertising

³¹ *Campaign*, 5 July 1985.

³² *Ibid.*, 2 Jan. 1981.

³³ *Ibid.*; see, for example, L. Dobrow, *When Advertising Tried Harder* (New York, 1984).

³⁴ Anderson, *Madison Avenue in Asia*, 112.

³⁵ *Asian Wall Street Journal*, 3 May 1977, 1, 10; *Advertising Age*, 30 April 1980, both cited by Anderson, *Madison Avenue in Asia*, 117. It is widely recognized that Japanese exporters and MNEs prefer to use local agencies to service their international advertising.

TABLE 5
Publicly Quoted UK Agency Networks, 1969–1987

YEARS	AGENCY	LOCATIONS
1969–73	Kimpher	Australia
1982–87	Saatchi & Saatchi	France, Italy, Spain, W. Germany, Netherlands, U.S., Canada, Hong Kong, New Zealand, Australia
1986	Boase Massimi Pollitt	U.S.
1985–87	Lowe Howard-Spink	U.S.
1986–87	Wight Collins Rutherford Scott/ Belier	U.S., Australia, Far East, Europe
1987	Wire & Plastics	America, Europe, Africa, Far East, Australasia

Sources: *Campaign*; *Financial Times*.

TABLE 6
Top Ten Agencies by U.S. and Worldwide Billings, 1987

U.S. RANK	AGENCY	U.S.	BILLINGS (\$M) WORLDWIDE
1	Young & Rubicam	2,573.0	4,905.7
2	Saatchi & Saatchi	2,187.0	4,609.4
3	BBDO	2,244.7	3,664.5
4	Backer, Spielvogel, Bates	1,808.0	4,068.7
5	Ogilvy & Mather	1,745.2	3,663.8
6	J. Walter Thompson	1,620.8	3,221.8
7	Leo Burnett	1,550.0	2,461.8
8	D'Arcy Masius Benton & Bowles	1,332.3	2,494.3
9	McCann-Erickson	1,078.0	3,418.5
10	Lintas	1,107.9	2,782.2

Sources: *Advertising Age*, 30 March 1988.

TABLE 7
Top Six Agency Groupings by U.S. and Worldwide Billings, 1987

GROUP AND RANK	PRINCIPAL AGENCIES	U.S.	BILLINGS (\$M) WORLDWIDE
1	Saatchi & Saatchi PLC [Saatchi & Saatchi; Backer Spielvogel Bates; Dorland]	5,623.6	11,357.0
2	Omnicon [Batten Barton Durstine & Osborn; DDB Needham]	3,882.2	6,267.6
3	WPP PLC [J. Walter Thompson]	3,278.5	5,952.9
4	Interpublic [Lintas; Lowe-Marschalk; McCann-Erickson]	2,603.0	6,622.7
5	Ogilvy [Ogilvy & Mather]	2,482.1	5,041.2
6	WCBS/Belier PLC [Wight Collins Rutherford Scott; Belier]	674.1	1,633.7

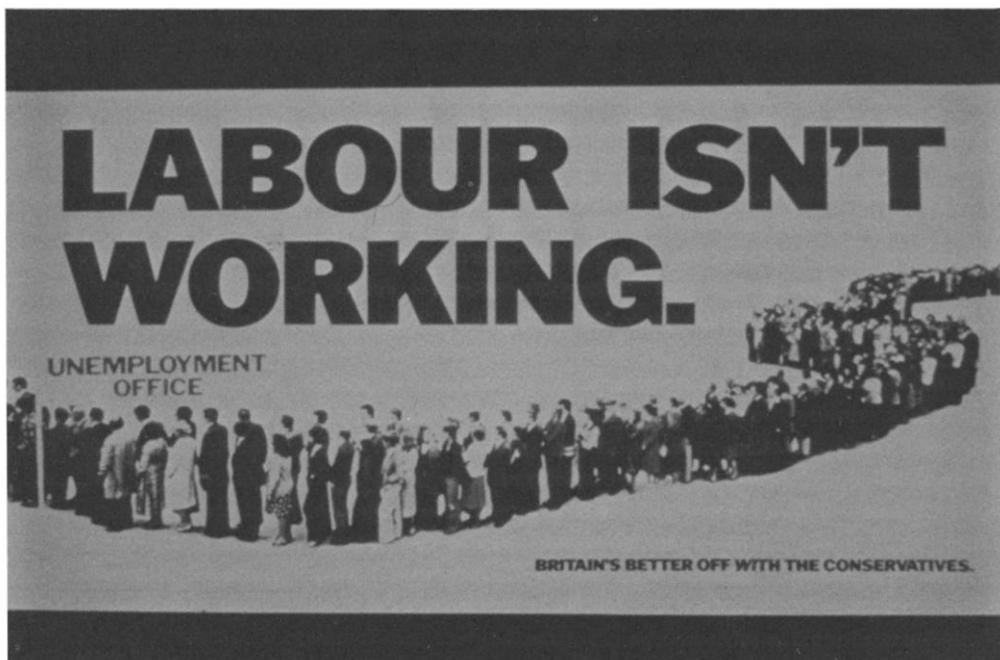
Sources: *Advertising Age*, 30 March 1988.

and Backer Spielvogel Bates (see Tables 6 and 7). Additionally, a newcomer, Wire & Plastics Products, purchased the J. Walter Thompson Group and became sixth in U.S. billings for a single agency and the third largest group. Wight Collins Rutherford Scott/Belier's branch office in New York was considerably smaller, but as a group placed in sixth position.

Saatchi & Saatchi's example played a strategic role in stimulating other British agencies to expand overseas. Just four years after its establishment in 1970, Saatchi & Saatchi had purchased three British agencies.³⁶ The agency then merged with the publicly quoted Compton UK in 1974. Its handling of advertising for the Conservative Party campaign between 1978 and 1979 raised Saatchi & Saatchi's image among the public and the business community in Britain. Thereafter it embarked on an ambitious domestic acquisitions program funded by rights issues.³⁷ A for-

³⁶ See Philip Kleinman, *The Saatchi & Saatchi Story* (London, 1987) for a comprehensive, if journalistic, study of the agency.

³⁷ In a rights issue, a firm offers new stock to current shareholders at a discount. Shareholders have a preemptive right to buy the shares or sell this right to others. This enables the firm to raise money without incurring debt. Rights issues also save companies money because the issue does not have to be underwritten. However, if shareholders fail to take up their rights, their holdings are substantially diluted. For a further discussion of their use by British agencies, see *Advertising Age*, 22 June 1987.



CONSERVATIVE PARTY AD, SAATCHI & SAATCHI, 1979

Advertising during the election campaigns was important in bringing the British-based agency into the public eye. One can see the difference in style between this creation and advertising of the 1950s and 1960s. (Reproduced courtesy of Saatchi & Saatchi, London.)

eign agency network was developed in the early 1980s, also by acquisition (see Table 5). Its most notable American purchases were Compton Communications in 1982, Dancer, Fitzgerald Sample in 1986 (bought by Dorland, one of its subsidiary agencies) and Ted Bates, also in 1986.³⁸

The meteoric rise of Saatchi & Saatchi has encouraged other agencies to "go public" in the 1980s. Their names can be seen in Table 8. Of these, Boase Massimi Pollitt, Wight Collins Rutherford Scott, Lowe Howard-Spink, and Wire & Plastics Products have developed multinational networks.

Wire & Plastics Products made supermarket trolleys when it was purchased in 1985 by Martin Sorrell, the financial director of Saatchi & Saatchi who had helped engineer the early U.S. acquisitions.³⁹ As a publicly quoted company, Wire & Plastics Products acquired a group of design houses in the United States and Britain in 1986 using capital

³⁸ *Advertising Age*, 6, 27 June, 1 Aug. 1983; 12 May 1986.

³⁹ *Financial Times*, 29 June 1987.

TABLE 8
UK Agency Stock Market Flotations, 1961–1987

YEAR	AGENCY	CITY RESPONSE
1961	Brunnings	success
1961	C. J. Lyttle	success
1963	Dorland	success
1963	Stowe & Bowden	success
1963	Pembertons	success
1969	Collett Dickenson	
	Pearce	success
1969	Kimpher	success
1969	S. H. Benson	flop
1969	Geers Gross	moderate
1983	Boase Massimi	
	Pollitt	success
1983	Wight Collins	
	Rutherford Scott	success
1984	Lowe Howard-Spink	moderate
1985	Abbott Mead Vickers	success
1985	Davidson Pearce	success
1985	Gold Greenless Trott	success
1986	Charles Barker	success
1986	Lopex	success

Sources: *Advertiser's Weekly*, *Campaign*.

invested by Saatchi & Saatchi and the City of London.⁴⁰ Shortly after leaving Saatchi & Saatchi, Sorrell mounted an audacious takeover bid for the enormous J. Walter Thompson Group in 1987.⁴¹ Wire & Plastics Products paid \$566 million—in cash—for Thompson, seen by many Wall Street observers as “precariously high.”⁴² The City of London, however, had confidence in Sorrell’s ambitions and offered funds. Wire & Plastics Products raised £270 million through a rights issue and £260 million through long-term debts. The most respected of the leading American multinational advertising agencies had fallen into British hands. Further smaller acquisitions have been made in advertising and sales promotions agencies.⁴³

The rise of Wight Collins Rutherford Scott has also been rapid. Ranked 67th in the British billings table of 1980, it was placed 12th in 1987 and had acquired the new name of WCRS Mathews Marcantonio

⁴⁰ *Advertising Age*, 14 April 1986.

⁴¹ *Times*, 11, 27 June 1987; *Business Week*, 13 July 1987; *Investors Chronicle*, 31 July 1987.

⁴² *Advertising Age*, 29 June 1987.

⁴³ *Ibid.*, 21 Dec. 1987, 25 April 1988.

in Britain.⁴⁴ It too drew on the City to finance a modest expansion in the United States in 1986, principally with the purchase of Della Femina Travisano, HBM/Creamer, Heller Breene, and R. A. Becker. However, the agency propelled itself into the sixth largest grouping in September 1987 when it purchased 49 percent of the shares of the Paris-based Groupe Belier, giving the agency a Continental base.⁴⁵ A global grouping was completed early in 1988 with the purchase of the Ball Partnership, which has branch offices in Asia and Australasia, from the American multinational agency Ogilvy & Mather.

Boase Massimi Pollitt and Lowe Howard-Spink are more modest multinational agencies in both billings and locations. In 1986 Boase Massimi Pollitt purchased a New York direct marketing company and Ammirati & Puris (also of New York). Ammirati & Puris placed 47th by gross income a year later, with U.S. billings of \$170 million.⁴⁶ These purchases were also funded by rights issues.

Lowe Howard-Spink gained a significant multinational presence in November 1985 with the purchase of a 30 percent shareholding of Marschalk.⁴⁷ Marschalk, part of the Interpublic Group, has four offices across the United States and placed 27th in terms of gross income with U.S. billings of \$304.2 million. Additional joint ventures were entered into in early 1987, forming a direct marketing unit and a new joint venture agency to handle British accounts that could not be transferred to the New York office because of account conflicts.⁴⁸

MNE THEORY AND MULTINATIONAL ADVERTISING AGENCY COMPETITION: ADVANTAGE

There is no evidence to suggest that the American multinational agencies in the inter- or postwar period possessed firm-specific monopoly advantages. Price competition did not exist as a serious factor. Agencies on both sides of the Atlantic earned the bulk of their income from media commissions at standard rates—that is, the agencies received a percentage of the charges for air-time or printed space. These commissions were rarely rebated to advertisers. In effect, then, all agencies charged the same price, so none of the agencies had a unique benefit to offer clients in this regard. There is, however, more scope to consider the possession of advantages if the discussion is widened to include Dunning's ownership-specific advantages.

One advantage possessed by U.S. agencies was their enormous size compared to British agencies, both multinational and local. Although

⁴⁴ *Campaign*, 2 Jan. 1981; 26 Feb. 1988.

⁴⁵ *Advertising Age*, 9 June, 18 Aug. 1986; 13 July, 28 Dec. 1987; 30 March 1988.

⁴⁶ *Ibid.*, 30 March 1988.

⁴⁷ *Times*, 2 Dec. 1985.

⁴⁸ *Advertising Age*, 26 Jan. 1987.

the British advertising business was heavily concentrated in the 1930s, American agencies were significantly larger than the British until the 1980s.

As Table 2 shows, U.S. agencies had London offices large enough to enter the ranks of the top ten in Britain. Moreover, the local market was the major one for British agencies, whereas for American agencies it was not. A study of *Advertising Age* data on agency billings around the world showed that in 1972 an American multinational agency was top in thirty-two reporting nations and in forty-three nations in 1976. Furthermore, in 1979 not one of the world's top fifty agencies was British.⁴⁹ Large agencies were more able to absorb the costs and risks involved in breaking into a market abroad.

The advertising environment represented another aspect of advantage. American agencies benefited from being concentrated in an advertising market some twelve to thirteen times bigger than the British (see Table 9). According to one respected British advertising journalist: "the British advertising market being so much smaller than that of the United States, it seems that a London-based agency just cannot generate sufficient money to compete effectively in both."⁵⁰ Furthermore, as Figure 1 shows, the British advertising market did not provide a consistent period of growth on which to base a well-supported multinational agency network until after the mid-1970s.

However, British macroeconomic advertising conditions became more favorable after the downturn of the mid-1970s (see Figure 1). Despite the recession of the early 1980s, British consumer expenditure remained buoyant in real terms, and advertising reaped the benefits. As Table 9 shows, British advertising expenditure improved its position relative to the United States in the early 1980s (reaching a similar proportion to that of the mid-1930s), although it fell back somewhat in the mid-1980s.

British advertising agencies have prospered in this environment. Between 1980 and 1984 the income of the top fifty British agencies rose by four-fifths, pretax profits by 85 percent, and shareholders' funds by 72 percent.⁵¹ American agencies based in London also benefited from the upswing, but several British agencies were able to make the most of the opportunity by going public (see Table 8).

Previous agency flotations had met with successful subscriptions by City investors who had confidence in the companies' managements and proven profits. But each small rush of flotations was shortlived, as the climate for flotations changed in late 1964 and again in 1969 with downturns in British economic activity. The Benson flotation had a particularly dismal impact on would-be public flotations by agencies.

⁴⁹ Anderson, *Madison Avenue in Asia*, 110; *Advertising Age*, 30 April 1980.

⁵⁰ Kleinman, *Advertising Inside Out*, 53.

⁵¹ William Phillips, ed., *The Advertising Agency Review* (London, 1986), cited in Phillips, "The Agency Business: On Top in the Eighties," *Admap* (Sept. 1986): 34–35.

TABLE 9
**UK Advertising Expenditure as a Proportion
of U.S. Expenditure, 1920–1985**

YEAR	%
U.S. 1920/UK 1924	9.3
U.S. 1929/UK 1930	10.3
1935	16.5
U.S. 1945/UK 1948	11.1
1955	5.3
1960	7.6
1965	8.0
1970	6.8
1975	10.6
1980	16.9
1985	11.1

Sources: UK: F. W. Taylor, *The Economics of Advertising* (London, 1934); N. Kaldor and R. Silverman, *A Statistical Analysis of Advertising Expenditure and of Revenue of the Press* (Cambridge, England, 1948); R. Silverman, *Advertising Expenditure in 1948* (London, 1951); R. Silverman, *Advertising Expenditure in 1952* (London, 1953); Advertising Association, *Advertising Expenditure in 1956* (London, 1958); Advertising Association, "Advertising Expenditure 1964/8," *Advertising Quarterly* 20 (1969); R. A. Critchley, *UK Advertising Statistics* (1972); M. J. Waterson, "Earthquake in Ulcer Gulch," *Admap*, July/August, (1986). U.S.: U.S. Bureau of Census, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D. C., 1975), cited by Daniel Pope, *The Making of Modern Advertising* (New York, 1983); J. Coen (McCann-Erickson); Advertising Association and European Advertising Tripartite, *International Advertising Statistics II* (Dec. 1986).

Benson failed because going public highlighted its endemic problems. It had recurrent trading deficits and prior to flotation had lost six big accounts (including the profitable Guinness account). The *Advertiser's Weekly* straightforwardly told its readers that Benson was a "bad buy."⁵² Benson's failure had strategic importance in undermining the confidence of other agencies in approaching the stock exchange. The London Press Exchange had rejected going public specifically because of Benson's difficulties. The agency estimated it would have required £3 million to finance the necessary network in the United States and saw no prospect of raising this amount in the City.⁵³

There is little doubt that the London Press Exchange would have received a better reception had it existed in the early 1980s. Saatchi & Saatchi had demonstrated to the City that agencies were bona fide businesses. In the get-rich-quick atmosphere before the crash of international markets in October 1987, City funds were readily made available for British agency multinational ambitions. The traditional U.S. ownership advantage of size was therefore challenged by the City of London's enabling smaller British agencies to purchase larger American firms.

⁵² *Advertiser's Weekly*, 12 Sept. 1969.

⁵³ Ibid., 19 Dec. 1969.

WOODY ALLEN
DIANE KEATON
MICHAEL MURPHY
MARIEL HEMINGWAY
MERYL STREEP
ANNE BYRNE

MANHATTAN

"MANHATTAN" Music by GEORGE GERSHWIN A JACK ROLLINS-CHARLES H. JOFFE Production
Written by WOODY ALLEN and MARSHALL BRICKMAN Directed by WOODY ALLEN CHARLES H. JOFFE
Executive Producer ROBERT GREENHUT Director of Photography GORDON WILLIS
SOUNDTRACK ALBUM AVAILABLE ON CBS RECORDS
© 1979 UNITED ARTISTS CORPORATION. ALL RIGHTS RESERVED.
United Artists

SAATCHI & SAATCHI, 1980

An example of the London-based agency's work for an American product, Saatchi & Saatchi's ad for the United Artist release, Manhattan, used clever typography and visual imagery to evoke the movie's themes. (Reproduced courtesy of Saatchi & Saatchi, London.)

Another important ownership advantage for the United States has been the trend in world foreign direct investment. The almost uninterrupted growth in international trade between 1945 and 1970 was dominated by the United States, and over a third of the subsidiaries of American MNEs were located in Europe between 1946 and 1961.⁵⁴ The United States accounted for 45 percent of the world's foreign direct investment between 1975 and 1980. The main advertising beneficiaries of this outpouring were American multinational advertising agencies.

However, between 1980 and 1985 the American percentage of foreign direct investment fell to 22. The difference was made up by the Europeans, who increased their share to 63 percent, and by the Japanese, who moved to 13 percent.⁵⁵

British foreign direct investment has been solidly aimed at the United States, accounting for two-thirds of all the takeovers in the United States in 1987. British investors spent the equivalent of 4.7 percent of British

⁵⁴ J. W. Vaupel and J. P. Curham, *The World's Multinational Enterprises: A Sourcebook of Tables Based on a Study of the Largest U.S. and Non-U.S. Manufacturing Corporations* (Geneva, 1974).

⁵⁵ United Nations Centre on Transnational Corporations, *Trends and Issues in Foreign Direct Investment and Related Flows* (New York, 1988).

GNP in acquiring American firms. The strategic advantage of a bridge into the U.S. market for British multinational advertising agencies has consequently been more easily achieved in the 1980s than previously. According to an executive director of Merrill Lynch Capital Markets in London, commenting on foreign direct investment in general: "the ability of British companies to sell stock in this country and pay cash in the United States has been a major factor [in takeovers]."⁵⁶

The advantage accruing to British advertising agencies in the changing trend in foreign direct investment flows in the 1980s was different from that previously held by the Americans. It provided access to capital, rather than to the patronage of large advertisers. Throughout the entire period, British agencies have never been able to exploit the indigenous British-based MNE advertiser in the same way that U.S. agencies have used American MNEs.

The pioneering American advertising agencies came to Britain in the interwar period to service the accounts of their large domestic advertisers who had become multinationals. In line with the frequent observation that MNEs normally first open a plant in similar countries in order to reduce risk, most new U.S. MNEs chose Canada or Britain as the countries in which to learn the skills of operating abroad.⁵⁷

In this respect advertising was an "experience" good (one whose value cannot easily be established by visual inspection).⁵⁸ Finding an unfamiliar environment, American MNEs, such as Procter & Gamble and Mars, wanted to use domestic agencies rather than take the risks of dealing with foreigners. Thus, most U.S. advertising agencies that became multinationals in the interwar period were pushed by their clients.

For its part, Britain in the interwar period, according to Peter Hertner and Geoffrey Jones, "was probably the world's leading home economy of MNEs."⁵⁹ However, British-based MNEs did not push their advertising agencies to go abroad as the Americans did. The evidence is scant, but it appears that British MNEs often treated each country separately and used a local agency. For example, Schweppes, a large British advertiser, allowed its local bottlers and subsidiary companies around the world a great deal of autonomy and encouraged them to appoint local agencies. Its international advertising began to be coordinated from London only in the early 1960s.⁶⁰ Unilever also used local agencies; Lux, for example, was placed with the New York office of J. Walter Thompson in the early 1920s. Thompson's London office did acquire the Brit-

⁵⁶ Frank J. Comes, Richard A. Melcher, and Jonathan Kapstein, "Europe Goes on a Shopping Spree in the States," *Business Week*, 27 Oct. 1988, 55.

⁵⁷ Caves, *Multinational Enterprise*, 15.

⁵⁸ Dunning and McQueen, "The Eclectic Theory of International Production," 203.

⁵⁹ Peter Hertner and Geoffrey Jones, "Multinationals: Theory and History," in *Multinationals: Theory and History*, ed. Peter Hertner and Geoffrey Jones (Brookfield, Vt., 1986), 6.

⁶⁰ Douglas A. Simmons, *Schweppes: The First 200 Years* (Washington, D.C., 1983), 150.

ish Lux account in 1927, indicating some attempt at coordination—but still through an American agency for a British product.⁶¹

After the Second World War, British multinational agencies did begin to develop some momentum in servicing the international advertising of British MNEs. A British ownership advantage, less significant than that of the U.S. agencies, lay in their access to imperial, Commonwealth, and European countries. A few advertising networks thus developed with those focuses, as many British MNEs reduced their risks by selecting nearby countries or territories under, or linked to, British rule and law. This practice did not accelerate entrance to the important U.S. market, and British exporters seeking a comprehensive network had little alternative but to choose Americans.

In the interwar period, U.S. multinational advertising agencies had an advantage compared to locals in the form of “advertising philosophies” deriving from their specialized knowledge. Advertising philosophies (approaches to the way advertising “works”) were widely used by American agencies in the interwar years, but not by the British. Each U.S. agency adopted a particular house style, based on a perception of how advertising works and should be written. These concepts were usually developed by prominent advertisers and then adopted by various agencies, so they were not necessarily unique to a particular agency. In the choices they made, U.S. agencies positioned themselves as “brands.”

Lord & Thomas, for example, used the philosophy of its founder, Albert Lasker, that advertising is “salesmanship in print.” All advertising copy written by the agency had to argue a rational case on behalf of the client. The advertisement was seen as selling the product directly to the customer.⁶² Another popular choice among U.S. agencies was AIDA, an advertisement evaluation technique developed by American psychologist E. K. Strong in 1924. The idea was that successful advertisements move the consumer’s thinking through stages of Attention, Interest, Desire, and Action.⁶³

In contrast British agencies, small to large, had no established philosophies in the interwar years. The personalities and views of their owners or managers were the main criteria affecting the styles of advertising produced or the ways in which agency personnel worked.

An American ownership advantage in the interwar period, one closely linked to advertising philosophies, was organizational experience. As was often the case with American multinationals of all kinds, U.S. multinational advertising agencies were familiar with extending themselves geographically because of the nation’s vast land mass.⁶⁴ They developed

⁶¹ David S. Dunbar, *J. W. T. Clients, 1925–75* (London, 1975).

⁶² *Advertiser's Weekly*, 26 March 1936; David Ogilvy, *Ogilvy on Advertising* (London, 1983), 189–91.

⁶³ E. K. Strong, *The Psychology of Selling* (New York, 1924); *Advertiser's Weekly*, 29 March 1929.

⁶⁴ Mira Wilkins, *The Maturing of the Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass., 1974).



J. WALTER THOMPSON, 1980s

A more recent advertisement, for Rountree's KitKat, stands in marked contrast to the Aquascutum ad of the 1950s. There is almost no text; instead, words are replaced with striking and evocative visual images. (Reproduced courtesy of J. Walter Thompson, London.)

advertising philosophies, in fact, in order to maintain standards of work across their American offices. When they went over borders, therefore, they already had the administrative and organizational skills to cope with distance. A new office or acquisition in London became like one in Detroit. British agencies, on the other hand, had little experience of significant domestic expansions until the early 1960s.

The evidence on other types of advantage deriving from knowledge and experience is sketchy. It is likely that American agencies led the British in the scale of their market research projects in the 1920s. *Advertiser's Weekly* at the time frequently reported the research activities of the Americans, particularly J. Walter Thompson's newspaper readership surveys. Thompson was the first agency in the United States to establish a market research department—in 1916—and it has emphasized research-based advertising ever since.⁶⁵ The British certainly felt threatened by these research projects. They joined together via their professional body (not then open to American agency membership), the Institute of Practitioners in Advertising, to produce collective detailed readership surveys covering the press and public in general.⁶⁶ However, judging by reports in the trade press, the top British agencies, especially the London Press Exchange, were mounting sizable technical market research projects to rival those of the Americans by the 1930s.

During the postwar years, the top British agencies probably shared any knowledge advantages held by the Americans. In the 1950s, U.S. agencies may have offered a wider range of services and benefited more from the experience of working with sophisticated clients than the majority of British agencies; but top British agencies offered similar services and possessed equal skills and expertise in working with clients.⁶⁷ It has also been argued that the Americans led the British in the area of motivational research. Again, this may hold for most agencies. But, of the three leading agencies in the use of motivational research in Britain in the 1960s, only one was American (J. Walter Thompson); the others were the London Press Exchange and Benson.⁶⁸ All the main people involved were British.

Knowledge could not be monopolized by any agency. Staff moved between agencies frequently and in significant numbers, particularly as American multinational agencies abandoned their interwar practice of appointing only Americans to senior positions: by 1963 only two Americans were listed in the *Who's Who in Advertising and Public Relations* as managers. Furthermore, the British advertising trade and profes-

⁶⁵ Daniel Pope, *The Making of Modern Advertising* (New York, 1983), 142.

⁶⁶ Monthly Report, Institute of Practitioners in Advertising, London, Nov. 1928, 27–32.

⁶⁷ Nevett, *Advertising in Britain*, 195.

⁶⁸ Oral evidence of Stephen King, director, J. Walter Thompson, London, 23 March 1988.

The camera never lies they say. So we'll come clean. Yes, we do have game shows.

ITV has invented and produced some of the most popular game shows ever seen in Britain. Family Fortunes, Give Us a Clue, 3-2-1 and Blind Date are all made by ITV.

And yes, we have soap. Coronation Street is the longest running series of its kind anywhere in the world. And it still tops the ratings.

What we don't always have is credit for some of the other programmes we make.

Credit where it's due.

Take current affairs programmes. World in Action, The Walden Interview, This Week, First Tuesday and Eye Witness.

Who's behind them all? We are.

Then there's drama. And we're not just talking about Brileshard Revised or Jewel in the Crown. We've also produced Edward and Mrs Simpson, Inspector Morse and John Mortimer's Voyage Round my Father.

And who could forget drama

A look at the old scoreboard reveals three Italia prizes (the only programme ever to achieve this), two RAI awards, two Emmies, three BAFTAs and over a dozen New York Film Festival awards.

Didn't they do well?

First and foremost.

ITV has always been an innovator of programmes.

The first series for schools began on ITV in 1952. Oracle, Britain's first teletext service, appeared in 1979. Then twenty-four-hour television arrived in 1987.

And there are no prizes for guessing which channel introduced the first series on adult education.

Or which company was the first to give live coverage to a by-election.

Or which side Sir John Gielgud and Sir Laurence Olivier made their debuts on.

Even the fab four made their first appearance on fabulous ITV.

So as far as the view that we're only game shows and soaps is concerned, it's an argument that just doesn't wash.

More bragging.

Something else that's much appreciated is Mervyn Bragg's South Bank Show.

ITV

J. WALTER THOMPSON FOR ITV

Another advertisement of the 1980s does employ text, but it combines an appeal to reason with visual reminders of the client's virtues. (Reproduced courtesy of J. Walter Thompson, London.)

sional bodies were educating hundreds of students each year in modern advertising practices.⁶⁹

A final ownership advantage of some potential significance is "creativity." Many observers of the United States advertising industry have argued that creative standards declined during the 1973–74 recession. Advertisers opted for less risky hard-sell approaches (for example, pictures of the product being consumed and loud-talking salespeople). This was occurring just as British agencies were learning from the examples of America's finest copywriters of the 1960s, such as Bill Bernbach. The "new wave" of British agencies exemplified this process by winning numerous international awards for advertising. However, it is unlikely that most U.S. clients would agree that American advertising standards have declined; nor do they view hard-sell approaches as bad. Furthermore, it is far from clear that the British style of "creativity" in advertising would work in the United States.

The obvious irrelevance of the topic is demonstrated by the inroads that the British made into the American market by acquisition, using domestic agencies and staff. Similarly, U.S. agencies in London have demonstrated exemplary creative flair in British advertising, using local staff for clients aiming at the local market.

MNE THEORY AND ADVERTISING AGENCY COMPETITION: INTERNALIZATION

An important result of the failure of British agencies to expand with their clients was the ability of American multinational advertising agencies to defend their domestic market. Much of the potential for British entrance to the U.S. market was stifled by the American agencies' toehold in Britain. The ownership advantage indirectly spawned an internalization advantage.

In the immediate postwar years several leading U.S. advertising multinationals established themselves by greenfield entrances based on entrances by American MNEs who were the agencies' clients. But by the late 1950s acquisitions had become more important, as the need to service domestic advertisers was replaced by American advertising executives' aggressively seeking opportunities abroad.⁷⁰ This also became a defensive reaction, as latecomers hurriedly purchased foreign agencies to maintain their standing with rivals. The internalization advantage was directly recognized and acted on.

A major impetus in this process was the long-established agency-client rule of "exclusivity." Agencies are unable to service the business of

⁶⁹ Who's Who in Advertising and Public Relations (1963); Douglas C. West, "A Professional Association in the British Advertising Industry, 1917–1970," *Journal of Advertising History* 7 (1983): 5.

⁷⁰ Weinstein, "Foreign Investment by Service Firms," 86.

**Would you be more careful if
it was you that got pregnant?**

Anyone married or single can get advice on contraception from the Family Planning Association
Margaret Pyke House, 27-35 Mortimer Street, London W1 N 8BQ. Tel. 01-636 9135.

"PREGNANT MAN"

This striking image was created by Saatchi & Saatchi for the Health Education Council in 1979. Like the ITV ad, it combines a strong emotional appeal with focused text. (Reproduced courtesy of Saatchi & Saatchi, London.)

directly competitive accounts (for example, two chocolate manufacturers) or sometimes of indirectly competitive accounts (Rowntrees would not use an agency advertising pet food because Mars made pet food). Both British and American advertisers are accustomed to incorporating exclusivity clauses in their contracts; Coca-Cola and General Foods were two major advertisers that used them. Internalizing operations abroad offers top agencies market growth when they are unable to gain new business because of conflicts with their current portfolio. Exclusivity could, of course, be demanded on an international scale. For example, J. Walter Thompson's London office was unable to handle a car account during the 1950s and 1960s. Ford had placed its business with most of Thompson's international offices during the time, but London failed to win any of it (apparently because of Thompson's close ties to General Motors in the interwar years). Because of international exclusivity the London office was not able to acquire a car account until the late 1960s.⁷¹ Such broad control was uncommon, however, and the international route did normally offer a way out of domestic exclusivity.

One option for non-multinational agencies was the formation of a group. Marion Harper's Interpublic of the 1960s, consisting of McCann-Erickson and Erwin Wasey, was the first major agency group. Each agency had a separate identity, enabling the group to handle conflicting accounts that could not have been served by a single agency.⁷²

Internalization for market growth was a key incentive. Michael Anderson observed "an almost frantic rush by major American agencies to get a foothold in markets around the globe," and Vern Terpstra and Chow-Ming Yu also found that United States agencies reacted "oligopolistically in investing abroad."⁷³

The successful British multinational advertising agencies of the 1980s acted like the latecomers that they were and purchased their international networks for a mixture of offensive and defensive motives. As with the postwar American agencies in Britain, internalization of markets was key. Offensively, they were entering new markets and expanding their client base; defensively they were holding onto domestic business that might have sought an international network with the globalization of markets and mergers of the 1980s.

Another important element involving internalization advantage was philosophy. The philosophy advantage of the interwar period became a transactional motive in the postwar period.

The two most influential advertising philosophies since the Second World War have been Rosser Reeve's "unique selling proposition" (USP)

⁷¹ Minutes of European Association of Advertising Agencies, Committee on Exclusivity, 30 Sept. 1965, from J. Walter Thompson, London Office.

⁷² Kleinman, *Advertising Inside Out*, 63–64.

⁷³ Anderson, *Madison Avenue in Asia*, 90; Terpstra and Yu, "Determinants of Foreign Investment in U.S. Advertising Agencies," 42.



© CROWN COLOURS. BECAUSE DECORATING ISN'T BLACK AND WHITE.

ADVERTISING MEETS ART

Some of the visual effect of this section of an advertisement from J. Walter Thompson is unfortunately lost when the ad is reproduced in black and white, because the colors are brilliant oranges, reds, and deep blues. The use of real items to evoke the colors of the paints and the painting-like arrangement of the objects and textures demonstrate the appeal to the senses characteristic of much of advertising in the 1980s. (Reproduced courtesy of J. Walter Thompson, London.)

and David Ogilvy's "brand image." Reeves, of Ted Bates, stated that "each advertisement must say to each reader: 'buy this product, and you will get this specific benefit.'"⁷⁴ The USP school argues that advertisers must offer strong, unique, and relevant benefits to consumers to be successful; it has been widely adopted by both British and American agencies during the 1960s and 1970s. A variation of the USP has been the cornerstone of Saatchi & Saatchi's advertising.

David Ogilvy made an important contribution to advertising with his philosophy of brand image.⁷⁵ The brand image school is more emotional in its approach than the USP. Nonverbal methods of communication and stimuli are seen as central in the brand image concept. Rather than telling consumers about the product's benefits, advertisements are

⁷⁴ Rosser Reeves, *Reality in Advertising* (New York, 1961), 47.

⁷⁵ Ogilvy, *Confessions of an Advertising Man*.

created to evoke moods and images, such as "stylish and sophisticated." Music, colors, and scenery become more significant in such advertising than the words heard or read. Like the USP, the brand image or a variation of its approach is widely used by both British and American agencies.

Consequently, philosophies were no longer an advantage—the locals used them as well. Internalizing became a way of minimizing the risk of the main alternative, the association. Put simply, by internalizing their chosen philosophy abroad, agencies were able to maintain quality control.⁷⁶ This is especially important in advertising, where the end product, the advertising campaign, must relate to the local environment and respond to the needs of the marketplace. To serve the needs of their clients, industries of this kind normally have to target local customers using local media and production facilities.

Organization also lost the status of an advantage in the postwar period and after the 1960s in particular, as domestic networks became more common in Britain. The Brunning Group floated itself in the early 1960s and developed a chain of regional offices in virtually every major city in Britain. Most important, Saatchi & Saatchi established an enormous domestic network before it became a multinational and thus benefited from the experience of managing branch offices.

Contractual issues also provided some impetus toward internalization. The major contractual problem of the association as an alternative to internalization is that each party in the agreement has less control over contracts entered into by the other. This would, on the surface at least, conform to Oliver Williamson's argument that a major advantage in becoming a multinational is the ability to enforce contracts.⁷⁷ The applicability of this argument to advertising is limited in that enforceable contracts between an agency and an advertiser (of any kind) do not exist. For example, in 1957 Procter & Gamble moved its Daz account from the British Lambe & Robinson agency and replaced it with Tide as part of an international realignment of business. Little warning was given of the move and there were no contractual agreements to hinder Procter & Gamble's actions.⁷⁸ Nevertheless, with internalization an agency can at least be more certain that its own policies will be adhered to, even if the whims of the advertiser cannot be controlled contractually.

In addition, internalization enabled multinational advertising agencies to control the entire income from international advertising, certainly supporting Kenneth Arrow's view that internalization often leads

⁷⁶ Casson, "Transaction Costs and the Theory of the Multinational Enterprise," 34–36.

⁷⁷ Williamson, "Transaction Cost Economics," 233–61.

⁷⁸ *Advertiser's Weekly*, 28 June 1957.

to higher profits.⁷⁹ Multinational agencies did not have to share their profits with associates.

Finally, internalization's synergistic benefits for agencies need to be mentioned. As one commentator put it, the multinational advertising agency "found that the whole is stronger than the sum of its parts. The interaction of different types of talent in different countries started to contribute everywhere. The cross fertilization of ideas, the exchange of people, the exposure to new situations all helped to build a stronger whole."⁸⁰ Agencies did not approach internalization with the goal of benefiting from synergy, but it was an important advantage over locals confined to the home market. For example, when commercial television was introduced in Britain late in 1955, agency branch offices in London drew on the expertise of their offices across the Atlantic to help organize and structure television departments and to practice making commercials.

MNE THEORY AND ADVERTISING AGENCY COMPETITION: LOCATION

There is little to comment on for those agencies that followed their clients into international enterprise. Location-specific factors were largely irrelevant to agencies' decision to become a multinational—they located where their domestic or potential clients were. It was the client MNEs that evaluated such aspects as tariffs, taxation, and factor endowments in locating. If a client was prepared to go to a location, its agency could often be persuaded to follow.

However, American multinational agencies in Britain without offices on the Continent in the interwar years and after were able to exploit location-specific production advantages. Britain served as their "gateway" to Europe. For example, J. Walter Thompson's London office created and placed advertising on the Continent well before a more widespread network was established there in the 1950s and 1960s.

The latecomers to multinational agency competition did assess location factors, but they did not generally exploit location-specific advantages. They behaved like classic MNEs: they concentrated on major Western advertising markets, which had highly developed advertising infrastructures. Furthermore, the British and American advertising environments were low-risk in terms of culture and government policies toward advertising and foreign direct investment. Supplies of advertising labor were available to both (though concentrated in London and New York) and of high quality.

⁷⁹ See Arrow, "Vertical Integration and Communication," 173–83.

⁸⁰ Anderson, *Madison Avenue in Asia*, 93.

British multinational agencies have used their U.S. locations to establish branch offices in Canada. But locations in the United States were not established primarily to service South American, Australasian, or Far Eastern advertising. Rather, the attraction of the United States for the British was the sheer size of its advertising marketplace and the necessity of a local branch office to service that market.

CONCLUSION

The experience of multinational competition in the British advertising industry illustrates that MNE theory does appear to offer a viable means of interpreting the causes and events. A significant dynamic element has been demonstrated. In the interwar period the pioneering American multinational agencies had several ownership advantages over the British, principally in the size of the home market, the size of American agencies relative to the British, flows of foreign direct investment, the loyalty of MNE advertisers, developed advertising philosophies, and organizational skills. There was every incentive to internalize these in order to maintain quality control and to gain the full income from international advertising rather than to divide control and income among associations. As a location, Britain offered the means to provide advertising tailored and delivered to local customers; in addition, Britain provided the ability to place advertisements on the Continent and a base for market entry. Dunning's concept of an eclectic paradigm integrating ownership, transactional, and locational advantages would provide a solid framework for interpreting the Americanization of the interwar British advertising industry.

In the postwar world most of the U.S. ownership advantages were diffused among the British and thereby the "advantage" disappeared. Knowledge and organizational skills equalized, primarily as the result of the movement of staff between agencies and the inability of service industries to use patents. American agencies used British staff, and overall the level of advertising expertise across the advertising market was enhanced. In the absence of major ownership advantages, the prime motives for becoming a multinational became internalization ones. The American agencies did have the advantage of MNE loyalties, and foreign direct investment flows were in their favor. It was also true that a small number of British multinational agencies were able to exploit networks following MNEs on an imperial/Commonwealth route. The main feature of the 1950s and 1960s, however, was the American agencies' scramble for advertising market share in the world market. Acquisition was the common means of market entry. British offices were used to handle domestic clients' businesses as well as that of local advertisers. British agencies were suppressed in both their home and international

markets by the rapid expansion of American multinational agencies during this period.

However, the pace of growth of U.S. agencies slowed in the 1970s, and local agencies began to reassert their position. The British took full advantage of favorable foreign direct investment flows in the 1980s and of the welcome reception of the City of London to flotations and rights issues in the wake of Saatchi & Saatchi's demonstration that British agencies could perform well. The new ease in raising capital facilitated the spectacular entrance of British multinational advertising agencies into the American domestic market from 1982 onward. Like the U.S. latecomers of the 1950s and 1960s, the motives of the British were transactional in terms of defending their home market and expanding abroad. A new entrepreneurial culture arose, seeking major expansions in the United States, compared to the previous acceptance of the inevitability of American dominance. Location played a minimal role for all agencies in the postwar period except in a general environmental sense.

Caution must be applied, however, in drawing any firm conclusion on this assessment of multinational competition in the British advertising industry. As Peter Buckley has pointed out in relation to internalization theory (but equally applicable to MNE theory in general): "the theory needs to be sharpened up in order to allow more scrupulous testing. . . . Special theories must be formulated that can be confronted with evidence."⁸¹ This article suggests that MNE theory offers a plausible basis for understanding the events and cycles of multinational competition in the British advertising industry. Only more rigorous theories and methods of testing will be able to provide more explicit evidence.

⁸¹ Peter J. Buckley, "The Limits of Explanation: Testing the Internalization Theory of the Multinational Enterprise," *Journal of International Business Studies* 19 (1988): 190.

APPENDIX 1**Top Ten UK Advertising Agencies by Ownership, 1936–1987**

Year	Rank	Agency	Ownership
1936	1	London Press Exchange	UK
	2	J. Walter Thompson	U.S.
	3	Lintas	UK
	4	S. H. Benson	UK
	5	Saward Baker	UK
	6	Dorland	UK
	7	W. S. Crawford	UK
	8	Mather & Crowther	UK
	9	Winter Thomas	UK
	10	C. F. Higham	UK
1950	1	J. Walter Thompson	U.S.
	2	London Press Exchange	UK
	3	Erwin Wasey	U.S.
	4	S. H. Benson	UK
	5	G. S. Royds	UK
	6	Lintas	UK
	7	Mather & Crowther	UK
	8	Saward Baker	UK
	9	W. S. Crawford	UK
	10	Colman, Prentis & Varley	UK
1960	1	J. Walter Thompson	U.S.
	2	S. H. Benson	UK
	3	London Press Exchange	UK
	4	Masius & Ferguson	UK
	5	Lintas	UK
	6	Mather Crowther	UK
	7	Young & Rubicam	U.S.
	8	Erwin Wasey	U.S.
	9	Hobson Bates	U.S.
	10	Foote Cone & Belding	U.S.
1970	1	J. Walter Thompson	U.S.
	2	Masius Wynne-Williams	UK
	3	Ogilvy & Mather	U.S.
	4	Young & Rubicam	U.S.
	5	Hobson Bates	U.S.
	6	S. H. Benson	UK
	7	Lintas	U.S./UK
	8	Leo Burnett/London Press Exchange	U.S.
	9	Waseys	U.S.
	10	McCann-Erickson	U.S.

Year	Rank	Agency	Ownership
1980	1	Saatchi & Saatchi	UK
	2	J. Walter Thompson	U.S.
	3	D'Arcy-MacManus & Masius	U.S.
	4	McCann-Erickson	U.S.
	5	Ogilvy Benson & Mather	U.S.
	6	Collett Dickenson Pearce	UK
	7	Young & Rubicam	U.S.
	8	Foote Cone & Belding	U.S.
	9	Ted Bates	U.S.
	10	Allen Brady & Marsh	UK
1987	1	Saatchi & Saatchi	UK
	2	J. Walter Thompson	UK
	3	Dorland	UK
	4	Young & Rubicam	U.S.
	5	Ogilvy & Mather	U.S.
	6	D'Arcy Masius Benton Bowles	U.S.
	7	Boase Massimi Pollitt	UK
	8	Lowe Howard-Spink	UK
	9	Grey	U.S.
	10	McCann-Erickson	U.S.

Sources: Collated from the *Statistical Review (The Statistical Review of Press Advertising)*, Jan.-Dec. 1936 and 1950; *Statistical Review of Press and T.V. Advertising*, Jan.-Dec. 1960; *Campaign*, 12 Feb. 1971, 2 Jan. 1981, and 26 Feb. 1988.

Business History Review

- Family partnerships and European trade in the early modern period
- Chartered trading companies as multinationals
- Cartels, contracts, and investments: German business in Scandinavia, 1918–1939
- An American multinational deals with Nazi Germany
- MNE theory and service industries: multinational advertising agencies

FOCUS ON
MULTINATIONAL
ENTERPRISE

So clean you can use them straight from the packet

— over 6,000,000 British housewives prefer these delicious, selected raisins

In at least 80% of the homes in Great Britain, housewives do their own cooking or some of it. For many years now, the methods of cleaning and preparing raisins are out-of-date.

They want fruit that is ready to use and especially clean.

For Sun-Maid comes from the world's largest

growers and packers of raisins — who stem,

clean, sort, wash, dry and分级 by hand.

Each packet contains sweet fruit that's been

especially selected and so carefully cleaned

that not a moment need be wasted in washing and

packing.

Doubly delicious — for they're made from

wonderful grapes dried by sun alone.

Juicy, white table-grapes grown from special vines are used to make the delicious, light-colored Sun-Maid Raisins. Picked only when

they have ripened to perfection — these luscious grapes have a unique flavor far above standard.

Any time you're in the mood for raisins —

merely open a bag!

Try Sun-Maid in cakes and puddings —

cookies and biscuits — whatever dishes you make, the delicious sweet flavor they give.

Ask your grocer for Sun-Maid Raisins today! Sun-dried in the red packet. Sealed

in the blue!



Up-to-date housewives prefer dried selected Sun-Maid Raisins — always clean and delicious.

Every day in the world's largest packing houses, more than a million pounds of raisins are cleaned, sorted and packed by exclusive Sun-Maid methods.

Send a post-card for free recipe booklet to Dept. , Sun-Maid Raisin Growers, 59, Eastcheap, London, E.C.3.

Ett tvättmedel för hela byiken



Ni kan avvara lut, såpa och skarpa tvätt pulver — det nya, milda tvättmedlet gör ensamt kläderna lika rena, nej, renare!

Ni har alltid trott, att lut och såpa är det sista "tvättmedlet". Nu kommer det nya, milda tvättmedlet från Rinso som gör er sammanstöt på rätt sätt och riktig stortvätt.

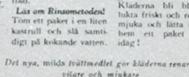
Vissa har tillverkade ha längre sedan att de kunnat göra en mykert och bra arbete att driva dem ur kläderna, sedan de gjort sitt verk och låtit smutsen. Men det är faktiskt ju inte tänkt på, han Ni tycker om att kläderna är det enda sättet att få kläderna rektigt vita.

Rinso är ett tvättmedel som inte är tvättmedlet för kläderna, utan är tvättmedlet för hela byiken. Ni kan använda det för att vana lika verksamma, ja, verksammare än de skarpa formulerade tvättmedlen. Det är sannolikt att det är rätt att komma tillbaka till.

Rinso tillverkare har längre sedan att det borde vara möjligt att framställa ett sådant tvättmedel. Och nu har många åter experimenterat den. Allt grindande och snidande har dels ockuperat dem. De har studerat ämnet och har erfahrt att det är svårt att få kläderna rektigt vita.

Tack vare sin fina konststeens löser sig Rinso vidare ovanligt snabbt i vatten och ger en härlig, läckrig och fräsch gräddig. Den bubblier trängs igenom varje vävdad och tag med sig smutsen ut varvad till vatten eller i vatten med blöts av lites Rinso.

Så här har viit vatten Adriatic gär i fär. Och ands ar Ni nöjd. Kläderna bli ifråslända vita, smutsar inte längre och kan smyka och lätta i handen. Tag hem ett paket Rinso redan idag!



Det nya, milda tvättmedlet gör kläderna renare, vila och mjukare

Changing Images from Multinational Advertisers: J. Walter Thompson in the 1920s and Saatchi & Saatchi in the 1980s

Vogue every month.
Squash every week.
Daily Mail every day.



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Cover: ADVERTISING FROM MULTINATIONAL AGENCIES. The cover collage shows the first ad placed on the Continent by J. Walter Thompson's London office, in 1926; an ad for the American-based Sun Maid Raisin producers run in Britain from the same office in 1929; and Saatchi & Saatchi's 1980 ad for its client, the *Daily Mail*. (Reproduced courtesy of J. Walter Thompson and Saatchi & Saatchi.) For an article on competition between American and British multinational advertising agencies, see pp. 467-501.